

TAX TIPS

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with incomes greater than \$578,125 (\$523,601 in 2022). The 37% rate starts at \$693,750 for married couples filing jointly (\$628,301 in 2022).

All other tax brackets reflect similar increases for 2023. The lowest rate is 10% for incomes under \$11,000 for single taxpayers and under \$22,000 for married couples filing jointly.

The individual income tax brackets have been indexed for inflation since 1985. This provision of the law was enacted in 1981 after a period of high inflation to ensure that taxpayers are not pushed up into higher tax brackets by inflation.

Capital Gains Tax Rates

For tax years beginning in 2023, the income brackets for tax on long-term capital gains and qualified stock dividends has also increased.

For married taxpayers filing joint tax returns, no capital gains tax is due until their income exceeds \$89,250 (an increase of \$5,900 from 2022). Tax of 15% will apply to their long-term capital gains until their income exceeds \$553,850 (an increase of \$36,650 from 2022). Above \$553,850 a tax rate of 20% will apply.

All other filing statuses reflect similar increases for 2023.

Gift and Estate Exclusions

For 2023 the annual exclusion for gifting will be \$17,000 in 2023, up from \$16,000 in 2022. You can gift as many people as you choose up to \$17,000 in 2023 without any reduction to your lifetime exemption or any gift tax consequence.

In addition to annual \$17,000 gifts, you can pay unlimited amounts for anyone's tuition or medical expenses, without affecting your lifetime exemption, as long as you pay the school or medical provider directly.

The lifetime exemption for gift and estate taxes for 2023 will be \$12.92 million, up from \$12.06 million in 2022. Under the 2017 Tax Cuts and Jobs Act, the lifetime exemption will be

1 IRS Inflation Adjustments

Here's an overview of key 2023 inflation adjustments published recently by IRS and a reminder of the change in mileage rates.

2 Tax Tidbits

Bits of information you may find interesting.

IRS 2023 Inflation Adjustments

This month the Internal Revenue Service announced the tax year 2023 annual inflation adjustments for more than sixty tax provisions, including tax rate schedules and other tax changes. Given the current high rate of inflation, it's not too surprising that these adjustments are higher than usual.

Standard Deduction Increases

The standard deduction for married couples filing jointly for tax year 2023 is increased \$1,800 to \$27,700. For married taxpayers filing separately and single taxpayers, the increase is \$900 to \$13,850.

For taxpayers filing under the head of household status, the standard deduction will be \$20,800 for tax year 2023, up \$1,400 from 2022.

Marginal Tax Rates

For tax year 2023, the top tax rate remains at 37% for individual taxpayers

reduced by more than half after 2025, barring any action from Congress.

Retirement Plan Contributions

IRS also recently announced changes to retirement plan contributions.

Deferrals of \$22,500 will be allowed for 401(k) plans in 2023, an increase of \$2,000. This increase also applies to 403(b) and most 457 plans.

Catch-up contributions for taxpayers aged 50 and over for these plans will increase to \$7,500 (up from \$6,500) in 2023. This means the maximum deferral for taxpayers aged 50 and over will be \$30,000 next year.

The limit for annual contributions to IRA accounts increases to \$6,500 in 2023 (up \$500). Annual catch-up contributions for taxpayers aged 50 and over remains at \$1,000 as this provision of law is not subject to an annual cost-of-living increase.

Income ranges for determining eligibility to make deductible IRA contributions and contributions to a ROTH IRA have also increased for 2023.

HSA Inflation Adjustments

Last month the IRS announced 2023 inflation adjustments for Health Savings Accounts (HSA) and high deductible health plans (HDHP).

For 2023, the annual limit on contributions to an HSA for an individual with self-only coverage is \$3,850, up \$200 from 2022. For an individual with family coverage, the maximum contribution for 2023 will be \$7,750, up \$450 from 2022 limits.

Individuals aged 55 and older will be entitled to make annual catch-up contributions, limited to \$1,000 per year. This is the same amount as allowed in 2022.

Other Provisions Impacted

Other provisions that have been adjusted include the Earned Income Tax Credit, the Alternative Minimum Tax exemption and phase-out ranges, the monthly limitation for qualified transportation fringe benefits, provisions relating to medical savings

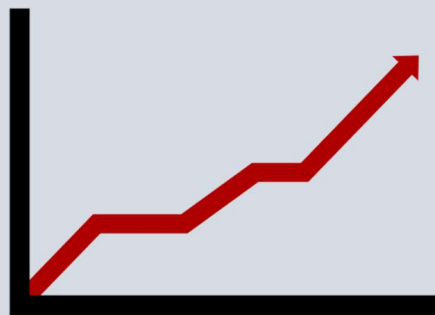
accounts, and more. For more details on these provisions, please contact our office.

Standard Mileage Rate

In June 2022, the IRS announced an increase in the standard mileage rates effective on July 1, 2022.

For the final 6 months of 2022, the standard mileage rate for business travel is 62.5 cents per mile, up 4 cents from the rate effective at the start of the year. The new rate for deductible medical or moving expenses (available only for active-duty members of the military) is 22 cents for the remainder of 2022, up 4 cents from the rate effective at the start of 2022. These new rates become effective July 1, 2022.

The mileage rate for charitable organizations remains unchanged at 14 cents per mile. This rate is set by statute.



Tax Tidbits

Tax Season Statistics

According to filing season statistics published by the IRS for the 2022 tax season, the IRS had received 145,372,000 individual income tax returns as of May 20, 2022 (the last date these statistics are available). The IRS reports that 137,177,000 of these tax returns were electronically filed.

IRS reports there were 679,249,000 visits to their website, www.IRS.gov. This is a decrease of 50.5% from the period ending May 21, 2021.

IRS issued 96,274,000 tax refunds through May 20, 2022 valued at \$292.542 billion. This represents an

increase of 8.2% over the prior period. The average refund through May 20, 2022 was \$3.039, up 7.5% from the previous year.

90,527,000 of these refunds were made by direct deposit, an increase of 4% from the previous year. The average direct deposit refund was \$3,121.

IRS Service & Processing Delays

Currently, IRS service delays include live phone support, processing tax returns filed on paper, answering mail from taxpayers, and reviewing tax returns, including tax returns filed electronically.

As of October 7, 2022 the IRS updated their operations status to show that they have 5.3 million unprocessed individual income tax returns received this year. These include tax year 2021 tax returns and late-filed prior year returns. Of these, 1.7 million require error correction or other special handling, and 3.6 million are paper tax returns waiting to be reviewed and processed.

Current processing time for individual income tax returns is estimated at more than 120 days.

As of October 8, 2022 IRS had 1.3 million unprocessed forms 1040-X Amended Individual Income Tax Returns. Their current timeframe for processing these returns is more than 20 weeks.

The agency is experiencing delays in processing business returns as well.

IRS says they are still experiencing delays due to the lingering effects of COVID19.

For More Info

The articles in this newsletter are intended to present general tax information. Accounting rules and tax laws are complex. Not all ideas presented may be appropriate for your specific circumstances. For additional information, call Kagan & Associates, Ltd. at 847-392-3300 or e-mail us at info@KaganLtd.com.